

CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

P.O. Box 419064, Rancho Cordova, CA 95741-9064



February 19, 2003

CSSIN LETTER: 03-04

ALL IV-D DIRECTORS
ALL COUNTY ADMINISTRATIVE OFFICERS
ALL BOARDS OF SUPERVISORS

SUBJECT: STATE FISCAL YEAR (SFY) 2003-04 GOVERNOR'S BUDGET
HIGHLIGHTS

Reason for this Transmittal

- ☐ State Law or Regulation Change
- ☐ Federal Law or Regulation Change
- ☐ Court Order or Settlement Change
- ☐ Clarification requested by One or More Counties
- ☒ Initiated by DCSS

The Department of Child Support Services (DCSS) is issuing this letter to transmit highlights of the proposed SFY 2003-04 Governor's Budget that reflects DCSS State Operations and Local Assistance proposed costs and projected child support collections.

The SFY 2003-04 Governor's Budget proposes expenditures of \$825 million (\$227 million State General Fund (SGF)) for DCSS Local Child Support Agency (LCSA) Basic Costs. The LCSA Basic Costs fund the local agencies administrative and electronic data processing maintenance and operations costs of the child support program. Funding for local agency administrative costs reflects a reduction of approximately \$109 million (\$37.1 million SGF) from the statutory funding level and approximately a 5.5 percent reduction for SFY 2002-03 allocation levels. This was accomplished by eliminating growth for SFY 2003-04 and reducing the funding for state initiatives.

The proposed Governor's Budget includes full funding for the Alternative Federal Penalty in SFY 2002-03 and SFY 2003-04. However, it is proposed that counties will participate with a 25 percent share in the cost of the penalty in the last quarter of SFY 2002-03 and for the entire year of SFY 2003-04, equating to \$6.2 million and \$51.8 million, respectively.

DCSS-AD-2003-BUD-0001



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www.childsup.cahwnet.gov

An overview of DCSS' budget for SFY 2002-03 and SFY 2003-04 are summarized in the attached DCSS proposed Governor's Budget Highlights for SFY 2003-04. In addition, responses to frequently asked questions has been provided. These documents are also available on the DCSS public website: <http://www.childsup.ca.gov>.

If you have any questions on the proposed Governor's Budget, please contact Gary Fujii at (916) 464-5177.

Sincerely,

A handwritten signature in black ink that reads "Jan Sherwood". The signature is written in a cursive, flowing style.

JAN SHERWOOD

Deputy Director

Administrative Services Division

Enclosures

cc: David Oppenheim, Executive Director
Child Support Directors Association

Department of Child Support Services Proposed Governor's Budget for FY 2003-04

Questions and Answers

LOCAL AGENCY ADMINISTRATIVE FUNDING

- Q. *How will the Governor's Budget proposed \$109.0 million (\$37.1 million State General Fund (SGF) reduction to child support county administration impact the county administrative and EDP Maintenance and Operation (M&O) allocations?*
- A. Due to lower revenues and increased demands on the SGF, the \$109.0 million (\$37.1 million SGF) reduction was based on no growth, historical expenditures, and reductions to state initiatives. The proposed funding level will require a reduction in current levels of service.
- Q. *How does the proposed \$109.0 million (\$37.1 million, SGF) reduction reconcile to the detailed local assistance documents released with the Governor's Proposed Budget?*
- A. The proposed Governor's Budget for the Department of Child Support Services (DCSS) is supported by detailed local assistance administrative costs that includes a line item for local child support agency (LCSA) basic costs, and estimated child support distributed collections. The LCSA basic costs are composed of two parts – administration and EDP M&O, and is the result of 13.6 percent of the estimated distributed collections. Application of the 13.6% of distributed collections formula would have generated an additional \$109.0 million (37.1 million.SGF) due to the projected increase in collections in the budget year. However, due to increased demands on the SGF, no increase was provided and therefore is not reflected in the budget detail. This equates to a \$40.1 million reduction from the current year funding level.
- Q. *Are there any other adjustments in local child support administration?*
- A. The Governor's Budget proposes a \$4.0 million (\$1.4 million, SGF) increase to EDP M&O funding. There are no additional adjustments to LCSA basic costs, those costs funded from the 13.6 percent of the estimated distributed collections. However, other adjustments to overall local assistance administrative costs include:
- ❑ Program Suspensions. Due to the current budget situation, decline in California's revenues and other demands on the SGF, the following programs totaling \$4.7 million, SGF are suspended for three years, effective SFY 2003-04.
 - Improved Performance Incentives. This reflects a \$1.0 million SGF savings.
 - Health Insurance Incentives. This reflects a \$3.7 million SGF savings.

- ☐ EDP Conversion and Enhancements. An increase of \$5.1 million for enhancement and conversion activities.
- ☐ Alternative Federal Penalty. The full amount of the penalty is reflected both in SFY 2002-03 and SFY 2003-04. In addition, it is proposed that counties will participate with a 25 percent share in the cost of the penalty in the last quarter of SFY 2002-03 and for the entire year of SFY 2003-04. This premise is known as County Share of Alternative Federal Penalty, and is reflected as revenue to the SGF.

Q. *Why Should Counties Pay a Share of the Federal Penalty?*

A. Under current law the entire penalty amount is a county responsibility that the SGF has been able to pay on behalf of counties since the penalty was imposed beginning in Federal Fiscal Year (FFY) 1998. The SGF payments through SFY 2001-02 totaled \$372.4 million, and by mid-way through the current SFY 2002-03 total \$462 million. Given the current budget shortfall, the Administration is proposing that counties now pay a portion of the federal penalty amount that previously was held in abeyance. It is proposed that counties pay a 25 percent share of the federal alternative penalty amount beginning in the last quarter of the current SFY 2002-03. The county share is estimated at \$6.2 million in SFY 2002-03 and \$51.8 million in SFY 2003-04. The 75 percent SGF share of the penalty amount in SFY 2003-04 is estimated at \$155.3 million. In SFY 2002-03, the SGF would pay an estimated \$182 million of the \$188.2 million projected total amount.

Q. *Why Must Counties Pay the Penalty from County Monies?*

A. The child support program is funded entirely from federal (66%) and State and Federal incentive funds (34%); under current law there is no county share of child support program costs. Thus, in order for counties to participate in paying a portion of the federal penalty amount, it is necessary for counties to remit county general funds to the State.

Q. *Why Not Reduce the Child Support Program to Pay the County Share of Penalties?*

A. Currently, there is no county share in program cost, the child support program is entirely funded from State and Federal funds. It would be necessary to significantly reduce program funding in order to achieve the necessary SGF savings of \$51.8 million in FY 2003-04. Since the federal penalty cannot be paid with federal funds, the only option to achieve savings within the child support program is to reduce SGF participation. Every SGF dollar reduction, results in a corresponding loss in federal financial participation (FFP) of two additional dollars. Thus, a SGF reduction of \$51.8 million would result in a child support program reduction of approximately \$152 million, equivalent to an additional 21 percent reduction to the program.

- Q. *What assumptions are made around the receipt of federal performance incentive funding?*
- A. The proposed Governor's Budget for SFY 2003-04 assumes receipt of a projected \$53.6 million in Federal incentives compared to \$52.2 million in SFY 2002-03. This is based from the most recent information available on California's performance related to the five federal performance measures. These numbers reflect an increase over prior year amount of \$40.0 million.
- Q. *What funding level is proposed in support of the single statewide automation system – the California Child Support Automation System (CCSAS)?*
- A. The proposed Governor's Budget continues funding for development of CCSAS at \$19.8 million (13.1 million, federal funds) as a placeholder until approval of required feasibility studies by the Federal Administration for Children and Families, and California Department of Finance. The funding in the DCSS budget reflects only the federal share for CCSAS. The SGF match is budgeted in the Franchise Tax Board budget.

CHILD SUPPORT COLLECTION TRENDS

- Q. *Why is the Department anticipating the year-to-year growth in collections to decline from 6% in FY 2002-03 to 4% in SFY 2003-04?*
- A. The child support collections are projected to increase by \$127 million in SFY 2002-03 and an additional \$85 million in SFY 2003-04 to reach a projected level of over \$2.3 billion. The decline in the percentage rate of growth is due to the collection base increasing and the most recent actual trend analysis. The budget year projections are based on actual monthly trend data for the most recent 24 months and reflects anticipated trends given the economic downturn.

STATE OPERATIONS BUDGET CHANGES

- Q. *How did the DCSS state operations budget fair as a result of the economic downturn?*
- A. Reductions were taken by DCSS, necessitated by the economic downturn; however, funding directly in support of child support collections, including locate and intercept contracts, were maintained at essentially current funding levels. The reductions taken were in areas with the least impact to the child support program.

The Governor's Budget includes reductions in both SFY 2002-03 and SFY 2003-04. The combined reductions include 25.5 positions and \$3.5 million (\$0.9 million, SGF) to DCSS' operating budget. In addition, the SFY 2003-04 budget proposes an increase of \$1.3 million SGF and 53.0 positions (50.3 personnel years) to reflect the transfer to DCSS of responsibilities for the California Parent Locator Service and the California Central Registry from the Department of Justice (DOJ). This results in a net increase of \$1.6 million or 1.5 percent over the revised SFY 2002-03 budget. Significant changes proposed for SFY 2002-03 and SFY 2003-04 are as follows:

- ❑ A one-time savings of \$1.5 million (\$0.5 million, SGF) in contracts due to the late passage of the budget in SFY 2002-03.
- ❑ A reduction of \$681,000 (\$232,000, SGF) and 11.5 positions (10.9 personnel years) to eliminate the positions vacant on June 30, 2002 (per Budget Letter 02-13) in SFY 2002-03.
- ❑ A reduction of \$1.3 million (\$0.4 million, SGF) and 14.0 positions (13.3 personnel years) related to administrative support and various operating expense reductions in SFY 2003-04.
- ❑ An increase of \$1.3 million SGF and 53.0 positions (50.3 personnel years) and related operating expenses resulting from the transfer of the California Parent Locator Service and California Central Registry from DOJ to DCSS in SFY 2003-04, pursuant to Chapter 759, Statutes of 2002 (AB 3033). This is a no new cost proposal and simply redirects the positions and funding for these functions from DOJ to DCSS.

CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES 2003-04 GOVERNOR'S BUDGET HIGHLIGHTS

The 2003-04 Governor's Budget for the Department of Child Support Services (DCSS) provides funding to promote the well being of children and the self-sufficiency of families by delivering first-rate child support establishment and collection services that help both parents meet the financial, medical, and emotional needs of their children. Total funding is proposed to decrease by \$17.8 million or 1.5 percent over the revised 2002-03 budget. The State General Fund (SGF) budget is proposed to increase by \$5.1 million or 1.1 percent over the revised 2002-03 budget. The DCSS budget reflects the transfer of new program responsibilities, and program reductions in the Department's operating budget and local assistance budget. Major changes are described in the following:

FUNDING SUMMARY

(dollars in thousands)

	FY 2002-03	FY 2003-04	Difference	Change
<u>STATE SUPPORT</u>				
State Support-General	\$ 27,389	\$ 29,478	\$ 2,089	7.6 %
State Support-Contracts	<u>\$ 77,299</u>	<u>\$ 76,812</u>	<u>\$ -487</u>	<u>-0.6 %</u>
TOTAL, STATE SUPPORT	\$ 104,688	\$ 106,290	\$ 1,602	1.5 %
General Fund	30,524	31,910	1,386	4.5 %
Federal Funds	74,042	74,258	216	0.3 %
Reimbursements	122	122	-	0 %
<u>LOCAL ASSISTANCE</u>				
Basic Costs	\$861,111	\$825,020	\$-36,091	-4.2%
Other Premises	<u>\$216,394</u>	<u>\$233,050</u>	<u>\$ 16,656</u>	<u>7.7%</u>
TOTAL, LOCAL ASSISTANCE	\$ 1,077,505	\$1,058,070	\$ -19,435	-1.8 %
General Fund	434,499	438,262	3,763	0.9 %
Federal Funds	332,442	314,339	-18,103	-5.4 %
Child Support Recovery Fund	310,243	305,148	-5,095	-1.6 %
Reimbursements	321	321	-	0 %
TOTAL, CHILD SUPPORT PROGRAM	\$ 1,182,193	\$1,164,360	\$ -17,833	-1.5 %
General Fund	465,023	470,172	5,149	1.1 %
Federal Funds	406,484	388,597	-17,887	-4.4 %
Child Support Recovery Fund	310,243	305,148	- 5,095	-1.6 %
Reimbursements	443	443	-	0.0 %
AUTHORIZED POSITIONS	220.2	259.2	39.0	17.7 %

PROGRAM HIGHLIGHTS

State Support

The Governor's Budget includes reductions in both FY 2002-03 and FY 2003-04. The combined reductions include 25.5 positions and \$3.5 M (\$0.9 M SGF) to DCSS' operating budget. In addition, the FY 2003-04 budget proposes an increase of \$1.3 M SGF to reflect the transfer of the responsibilities for the California Parent Locator Service and the California Central Registry from the Department of Justice (DOJ). The net increase is \$1.6 Million or 1.5 percent over the revised FY 2002-03 budget. Significant changes proposed for FY 2002-03 and FY 2003-04 are as follows:

Major Budget Adjustments Included in 2002-03:

- \$1.5 M (\$0.5 M SGF) one-time savings in contracts due to the late passage of the budget.
- \$681,000 (\$232,000 SGF) and 11.5 positions (10.9 personnel years) to eliminate the positions vacant on June 30, 2002 (per Budget Letter 02-13).

Major Budget Adjustments Proposed for 2003-04:

- A reduction of \$1.3 M (\$0.4 M, SGF) and 14.0 positions (13.3 personnel years) related to administrative support and various operating expense reductions.
- Increase of \$1.3 M SGF and 53.0 positions (50.3 personnel years) and related operating expenses resulting from the transfer of the California Parent Locator Service and California Central Registry from DOJ to DCSS pursuant to Chapter 759, Statutes of 2002 (AB 3033). This is a no new cost proposal and simply redirects the positions and funding for these functions from DOJ to DCSS.

Local Assistance

Federal and state funds share the costs of salaries, benefits and operating expenses of LCSA staff who administer the child support program. The federal government pays 66 percent of the total program costs and also provides a federal incentive based on the State's performance in five performance measures. The SGF provides the balance of the nonfederal match of the LCSA costs that are not covered by the federal incentive payment. The combined federal incentives and SGF for local administrative costs equal 13.6 percent of total distributed collections subject to the funds appropriated in the Annual Budget Act. As a result of lower General Fund revenues, and increased demands on the SGF, the FY 2003-04 Governor's Budget proposes a reduction to the 13.6 percent funding in LCSA administrative costs of \$109.0 M.

Local Assistance (Continued)

Federal and state funds are used to finance the costs of a statewide-automated child support system, as required by federal law. The Franchise Tax Board (FTB) is the Department's agent for development of the statewide automation system, and the General Fund necessary to match the federal funds for development of the statewide system is reflected in FTB's budget. The federal funds for the project are reflected in the DCSS budget.

The Governor's Budget for FY 2003-04 proposes a net decrease of \$19.4 M or 1.8 percent over the revised FY 2002-03 budget for funding local assistance costs. Significant changes proposed for FY 2002-03 and FY 2003-04 are as follows:

Major Budget Adjustments Included in 2002-03:

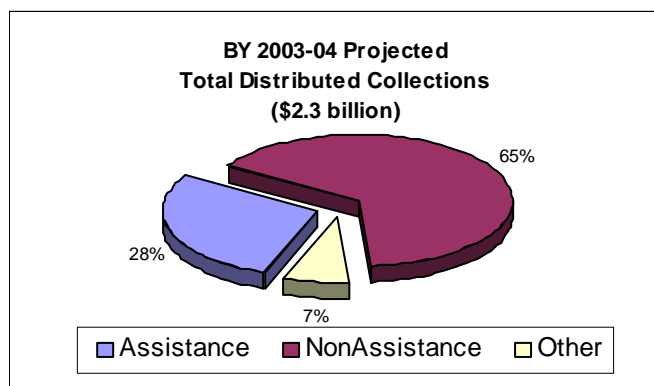
- Decrease of \$9.0 M SGF due to an estimated increase in the Federal Basic Incentives.
- Increase of \$98.5 M SGF to fully fund the Alternative Federal Penalty.
- Increase of \$6.2 M SGF to the child support revenue to reflect a county share of the increased cost of the Alternative Federal Penalty.

Major Budget Adjustments Included in 2003-04:

- Decrease of \$109.0 M (\$37.1 M, SGF) in Local Child Support Agency Basic Administration Costs. This reduction reflects the savings from the 13.6% of total distributed child support collections. This adjustment reflects actual historical spending patterns and various reductions to training, customer service, ombudsperson, client outreach, and other department initiatives.
- Decrease of \$4.7 M SGF due to the suspension of the Health Insurance Incentives and the Improved Performance Incentives.
- Increase of \$18.9 M SGF to fund the Alternative Federal Penalty.
- Includes \$51.8 M as revenue to the General Fund to reflect a 25% county share of the Alternative Federal Penalty.
- Increase of \$2.5 M to the General Fund revenue by eliminating the transfer of child support collections to the Foster Parent Training Fund.

CHILD SUPPORT COLLECTIONS

The Governor's Budget for FY 2003-04 projects distributed collections at \$2.3 billion (B), an increase by approximately \$85.6 million (M) or 3.7 percent over the revised FY 2002-03 distributed collections. These collections are distributed in three ways: to the families as a child support payment, to the state, federal and county governments as revenue to recover the assistance payments, and to other states. The distributed collections are categorized into three categories: NonAssistance, Assistance, and Other.



NonAssistance Collections. FY 2003-04 proposes \$1.5 B, which is an increase of \$86.5 M over the revised FY 2002-03 budget. These are collections that are made on behalf of families and sent directly to the families. They include basic collections \$1.4 B, which are the ongoing efforts of the Local Child Support Agency (LCSA) to collect child support payments from noncustodial parents and new premises (\$71.1 M), which are collections that are associated with new enforcement activities that are above the basic ongoing functions of the LCSA, such as Franchise Tax Board Non-Tax Collections, and California Insurance Intercept Project.

Assistance Collections. FY 2003-04 proposes \$660.8 M, which is a decrease of \$7.0 M over the revised FY 2002-03 budget. These collections go to repay the state, federal and county governments for assistance payments.

Other Collections. FY 2003-04 proposes \$164.2 M, which is an increase of \$6.1 M over the revised FY 2002-03 budget. These collections consist of Assistance \$8.1 M and NonAssistance \$117.1 M collections that are collected on behalf of other states. Other collections also include the \$50 State Disregard Payment to Families (\$27.6 M) and Miscellaneous collections (\$11.5 M).

